

QUARTERLY HIGHLIGHTS

- For Q2-2017, the Balanced Endowment Model Strategy performed modestly during the quarter, as most equities showed a strong rise and fixed allocations brought a slight increase
- The strategy model slightly underperformed its benchmark, a weighted average combination of the Barclays Aggregate Bond, MSCI ACWI, and HFRX Global Hedge Fund indices, mainly due to sluggish performance in alternative allocations
- Managed futures exposures in the portfolio detracted from performance

MARKET CONTEXT | OUTLOOK

Market results for Q2-2017 were once again strong, with non-U.S. equities and emerging markets outpacing U.S. equities, while bonds moved higher led by credit and high yield. Growth outpaced value handily in the U.S. during the quarter, and overseas equities were led by Europe and Asia ex-Japan. Commodities continued to struggle and declined for the quarter; the U.S. dollar weakened further and has given up all of its post-election appreciation. Hedging and lower correlation strategies continued to post modest returns, as a lack of trends and low levels of volatility persisted through much of the quarter, although technology-related stocks ended the quarter with some volatility pickup.

The Trump administration continues to struggle to find its sea legs, whether looking at the pace of executive branch appointments, the advance of significant legislation, or the ability to stay on message. Meanwhile, the Republican controlled Congress drifts rather aimlessly. Valuations are stretched, but not to extreme levels, and earnings have recovered from a multi-quarter negative run. We believe opportunities exist overseas in both developed and emerging markets that have attractive valuations and perhaps better near-term growth prospects. We believe the unnatural calm many markets have experienced recently will be succeeded by more customary levels of volatility. Investors should be prepared by structuring diversified portfolios with an eye toward significant risks that may manifest suddenly.

STRATEGY KEY CONTRIBUTORS | DETRACTORS

- Specific allocations to the total world stock market, technology, and exposure to large and mid-cap U.S. stocks all outpaced the broad global equity benchmark and were the largest contributors the portfolio's performance.
- Allocations in consumer discretionary, unconstrained credit, and total bond market investments detracted from overall portfolio performance.
- The strategy is actively managed with a long-term perspective, so it is reasonable to expect there will be periods when the strategy's results differ from the benchmark in pursuit of objectives over time. Given its objectives and moderate risk tolerance, we believe the portfolio has been conservatively positioned. Although the strategy model has outperformed its weighted average benchmark over the past three years (before fees), it has lagged since inception, albeit with lower risk.

PORTFOLIO CHANGES

- Equity valuations by most measures are rich, especially in the U.S., although they have not approached the extreme levels of 2000. Interest rates and inflation remain at low levels despite central banks' efforts to raise them.
- Earnings have rebounded, led largely by energy companies. In the eighth year of a mediocre economic expansion, and after years of corporate expense management, share buybacks and other manipulations, the question becomes: how sustainable is the earnings picture?
- A number of market observers and participants are puzzled by the Fed's apparent intent to continue to hike interest rates, despite lackluster economic growth and quiescent inflation.
- During the quarter, we added exposures to Asia ex-Japan, Europe, and merger arbitrage strategies, trimmed exposure to broad U.S. equities and eliminated a previous allocation to materials sector equities.

Strategy Summary

The Balanced Endowment Model Strategy, on a long-term basis, seeks:

- To grow invested capital over the long-term, with moderate level of volatility
- Moderate beta relative to global equities (~ 0.6)
- Superior risk-adjusted return: (Sharpe ratio > 1.0)
- To diversify the portfolio's long-only equity and other sources of risk
- Exposure to different sources of return than just traditional stocks and bonds

The Balanced Endowment Model Strategy is:

- Actively managed by an experienced team of investment professionals, with daily liquidity
- Implemented at lower cost than many multi-asset class portfolios
- Invested in ETFs and mutual funds focused on multiple asset classes, including alternative strategies
- Typically appropriate as a moderate investor's total portfolio, with at least a intermediate-to-long term investment time horizon, and a moderate tolerance for risk.

ABOUT OUR FIRM

Palladium LLC is an independent, employee owned asset management firm that manages global, multi-asset class investment strategies, with an emphasis on alternative investments and active risk management. Palladium's investment team has 30+ years experience working with high profile institutional clients in the public and corporate pension fund markets, as well as high-net-worth individuals.

The cornerstone of Palladium's investment process was developed nearly 30 years ago. Refined and revised over time, this process has been implemented at both a major wire-house and managed account provider.

PORTFOLIO MANAGEMENT TEAM

Donald Robinson
CEO & Co-CIO

33 years industry experience

David Feldman
President & Co-CIO

32 years industry experience

Joseph J. Scavetti, Jr.
Chief Operating Officer

24 years industry experience

Jacqueline Dewey
Director Managed Account Services

23 years industry experience

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